

Message Text

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46

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PRS-01 PA-03 USIA-15 RSR-01 /160 W

----- 026617

R 071517Z AUG 73

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1467

UNCLAS OTTAWA 1822

E.O. 11652: N/A

TAGS: EFIN, CA

SUBJECT: BANK RATE INCREASED TO 6.75 PERCENT.

1. BANK OF CANADA GOVERNOR GERALD K. BOUEY ANNOUNCED THAT EFFECTIVE AUGUST 7, BANK RATE WOULD BE RAISED FROM 6.25 PERCENT TO 6.75 PERCENT. THE CENTRAL BANK INTEREST RATE HIKE IS THE FOURTH SINCE APRIL 9 AND PLACES BANK RATE TWO PERCENTAGE POINTS HIGHER THAN IT WAS FOUR MONTHS AGO.

2. IN A PRESS STATEMENT, BOUEY SAID THAT THE RATE INCREASE HAD BEEN IMPLEMENTED "IN LIGHT OF RECENT FINANCIAL DEVELOPMENTS BOTH IN CANADA AND ABROAD". HE REPEATED EARLIER STATEMENTS TO THE EFFECT THAT THE BANK'S POLICY IN RECENT MONTHS HAD BEEN TO MODERATE AN UNUSUALLY RAPID GROWTH OF BANK CREDIT AND MONEY SUPPLY EXPANSION IN CANADA. HE ADDED "A SUFFICIENT MODERATION, HOWEVER, HAD NOT BEEN ACHIEVED; THE PACE OF BANK LENDING (ANNUAL RATE OF 21 PERCENT DURING SECOND QUARTER) AND MONETARY EXPANSION (ANNUAL RATE OF 16 PERCENT) REMAINS TOO HIGH".

3. BOUEY ALSO NOTED SUBSTANTIAL INCREASED IN SHORT TERM RATES IN THE U.S. AND EUROPE: "THIS HAS TENDED TO PUT UPWARD PRESSURE ON INTEREST RATE LEVELS IN CANADA AS IT BECAME INCREASINGLY ATTRACTIVE TO INVEST FUNDS ABROAD BUT CORRESPOND-

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INGLY MORE EXPENSIVE TO RAISE FUNDS ABROAD".

4. CHARTERED BANK PRIME RATES, NOW SET AT 7.75 PERCENT,
LIKELY TO FOLLOW BANK OF CANADA LEAD WITH SIMILAR RATE
INCREASES THIS WEEK.
SCHMIDT

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Disposition History: n/a
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Disposition Remarks:
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EO Systematic Review
30 JUN 2005

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